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SUMMARY

This study deals with some aspects of judgement and choice in external reporting. We have tried to link several conceptions as are found in cognitive psychology with some developments in external reporting. Our investigation has been specially focussed on the question as to what extent several approaches concerning the functions of external reporting show a relationship with these conceptions. Furthermore we have attempted to ascertain empirically to what extent two groups of users of external reports make consistent decisions, and to what extent there is consensus between the decision makers. This empirical investigation has been carried out by means of a controlled laboratory experiment. By means of the same experiment we have also investigated as to what extent functional fixation can be established in our subjects. We have explicitly dealt with the relevance of our investigation for three categories of stakeholders (the producers of information, the regulatory bodies, and the recipients of information).

In the first chapter of this study we have given a short outline of some developments in the field of external reporting. We have established that within this old discipline there are still widely different opinions on the numerous fundamental questions. As a result, it is difficult to integrate the many developments in this field. Consequently this field shows characteristics of a discipline in the beginning of its development. Even within the different subfields of external reporting there is little unanimity, as we have shown in the description of the emergence of two new trends. Both the BAR and the HIP studies appear to contain many controversies; the formulation of problems is not directed from a unifying paradigm.

In this study of judgment and choice in external reporting, we have endeavoured to link several developments in this discipline with the various theories and conceptions as are found in cognitive psychology (chapter II). The relevant discipline is still being developed. There appears to be no question of a complete cognitive decision theory, though several proposals can be found in the literature. It

is, however, possible to give a broad outline of the structure of such a theory, wherein the following elements are to be found:

1. An individual - psychological and a social-psychological description of the system used by decision makers or authorities. We have restricted ourselves to an analysis of a few individual-psychological aspects which are important, such as:
 - a. Characteristics of human perception.
 - b. The way in which human rationality manifests itself in relation to judgement and choice.
 - c. The way in which man faces uncertainty.
2. One or more models for the representation of the task environment. We have paid attention to various methods for measuring several aspects of judgement and choice. The variety in the existing methods appears to be connected to the variety in possibilities to structure the problems.
3. Policies with the help of which decision makers try to choose the best course of action. We have shown that the application of the existing policies does not only depend on the formulation of a problem, but also on miscellaneous psychological characteristics of individuals. We have discussed various heuristics which are used in decision making.

We have employed two methods in this study to make use of various concepts and methods of cognitive psychology. In the first place we have tried to relate various developments concerning views on the functions of external reporting to the conceptions and methods of cognitive psychology (chapters III and IV). In the second place we have tried to investigate empirically various aspects of judgement and choice in an external reporting context (chapters V and VI).

We have distinguished two approaches in the discipline of external reporting in general (chapter III). On the one hand there is the approach which makes suggestions, based on the existing situation, to improve the external reporting. On the other hand there is an approach which decides, in a formal way, which is the optimal information system.

The former approach has, till now, been of greater significance for the practice of external reporting than the latter. Characteristic of the first approach is the close relationship with the analysis of the problems as seen by the management. Within that framework there is no room for unbounded rationality for the decision maker, on the contrary. The process for creating and developing the external reporting by the management is characterised more by:

1. Selective attention and selective perception.
2. Vague ideas about the effect of the report on the public.
3. A way of improving the external reporting without using cost-benefit analysis, taking the various signals from a society, which is continually developing and making new demands, into account.

The second approach applies a formal approach in a realistic institutional setting. This second approach is based on the principle of unbounded rationality, where there is no place for the phenomena of selective perception and heuristics. However, in relation to the regulation of the external reporting, an information-economics approach appears to impose too many limitations. Especially from the social and political economy point of view we have considered an expansion of the theory as desirable.

We have drawn the following conclusions (chapter III):

1. A remarkable broadening of the view on the objectives of external reporting is now being found in national as well as international circles: from a stewardship report for only one group to information on a large scale for various groups of interested parties. This development has shown to be of great importance for the contents of annual reports.
2. The abstractness of the information-economics model has greatly reduced its significance. On the other hand, the model may provide a significant plan for thought on the analysis of the problems of reporting in a multi-person setting.
3. There is insufficient empirically founded insight into the degree to which and how the management tries to influence the external reporting by means of income smoothing techniques.

4. From an empirical research in 38 Dutch companies we have found that much not legally compulsory information of a public character, was provided. If companies did not wish to provide information about specific clusters of information this was due to the view of the management not to provide information for their competitors.

Subsequently we have investigated various aspects of the judgement of users of the external reporting (chapter IV). By means of questionnaires and interviews, many investigations were carried out by others - national as well as international - on the views held by the different interested parties. Enquiries have often been made on the question of unfulfilled wishes. In general it was apparent that most users are of the opinion that a) there is adequate disclosure in the external reporting; b) relevant information is found in the annual reports. In spite of this, all the groups investigated still had unfulfilled wishes.

By means of laboratory experiments it is possible to ascertain to what extent information for decision making really functions. In general, it can often be established that there is a discrepancy between asserted and actual relevance. However, it is possible that this discrepancy is of little relevance, because of the many unrealistic premises of most laboratory studies. Unrealistic premises can be found in investigations into the relationship between decision styles and the preference for certain information systems, as well as in the functional fixation studies which we have discussed.

Questionnaires and interviews get a better response by company management than the rather abstract laboratory experiments. The results obtained from questionnaires and interviews about various aspects of external reporting are easier to interpret than those obtained from the artificial and rather unrealistic situations in laboratory experiments. On the other hand, laboratory experiments provide a more acute perception of the manner in which decision makers actually use information. The benefits obtained from information can be deduced from various theoretical models, as we have discussed in paragraph IV.4. Up till now, however, there is no evidence that during

the actual making of decisions the relevant theoretical models are maintained.

By means of an empirical investigation, carried out with the assistance of experienced financial analysts and undergraduate students, we have attempted to ascertain to what extent these persons make consistent decisions (chapter V). We have also investigated the degree of consensus between the decision makers. This empirical investigation has been preceded by an analysis of the relevance of these concepts for several categories of stakeholders (the producers of information, the regulatory bodies and the recipients of information). Generally speaking, we have concluded that it is not possible to predict how these stakeholders will react to a lack of consistency and consensus in judgement and choice of the recipients of information.

The empirical investigation has been carried out by us in the form of an experiment whereby the subjects were asked to place the shares of five companies, after examining the information provided, in a decreasing degree of "quality". We have derived the concept of quality from the field of finance, where it plays a role in investment theory and practice. Furthermore we have asked the subjects to indicate the factors which in their view determine the quality of a share. The function of this part of our investigation was to obtain a list of factors which can be used in Saaty's Analytical Hierarchy Process.

Next we have made the concept of consistency operational by means of the Saaty method. This method is a multicriteria method, which is especially useful for the solution of problems where quantitative and qualitative attributes play a role. The method leads to the calculation of a consistency-ratio, which is a benchmark for the degree of consistency of a decision maker. Saaty's concept of consistency is closely related to the well-known concept of transitivity.

In general, our subjects had difficulty in scoring what could be deemed a reasonable consistency-ratio. To what extent this result is derogatory to the general relatively high degree of consistency found by other researchers, cannot be precisely formulated due to

the differences in measurement methods (Saaty method versus Lens Model analyses and ANOVA studies). Further investigation into what extent these different methods lead to the same conclusion would appear desirable to us. The desirability of this is also apparent because of the severe restrictions of Lens Model analyses and ANOVA studies: such analyses require precisely formulated problems whereby, based on few cues, many predictions have to be made or many decisions have to be taken. As we have previously stated in chapter II of this study, many realistic problems cannot be squeezed into such a strait-jacket.

We have found a significant difference between the consistency ratios of the students and the financial analysts. On average the students scored significantly better than the financial analysts. One would not expect such a result. On the basis of what is summarized in the literature about the way of thinking of experts, one would expect the experienced financial analysts to achieve a better score than the students. In the study we have suggested several possible explanations for our results.

In chapter II we have established that, in connection with the phenomenon consensus, investigations by others have so far not produced an unequivocal picture. A high degree of consensus is often shown. Just as often, a low degree of consensus is shown. Here also, the analysis is usually carried out using Lens Model analyses and ANOVA studies. As a consequence an adequate point of reference for the results of our investigation is missing. In respect of the requested listing of factors determining quality, as well as the placing of shares in decreasing degree of quality, the degree of consensus between our subjects appeared to be reasonable. Generally speaking, in the investigation we have found a significant degree of consensus between the subjects in the various groups. This has been the case in respect of the ranking explicitly given by the subjects, as well as those calculated according to the Saaty method.

In a second empirical investigation, that we have also carried out in the form of an experiment, it was first of all ascertained to what extent functional fixation can be established in the subjects

(chapter VI). Functional fixation may provoke incorrect decisions due to an incorrect interpretation of a received dataset. In general, it cannot be predicted how various categories of stakeholders will react to this phenomenon.

The relevant investigation, just as the previous one, has been carried out with the participation of experienced financial analysts and undergraduate students. The subjects had to give predictions for share prices after receiving certain data sets. Essentially the investigation has been focussed on the question as to what extent the prediction of share prices can be influenced by manipulating data sets. The manipulations, used in the investigation, concerned the way in which income tax is calculated in the financial statements, as well as the methods of valuation employed by the company. The results of the investigation are contrary to those found in a similar investigation carried out by Abdel-khalik and Keller [1979]. In general, we could find no support for the functional fixation hypothesis.

We have also included several statistical problems in our investigation in order to test the various hypotheses formulated by Swieringa and others [1976]. This part of our investigation may be relevant for the same reason as has been mentioned in relation to functional fixation. Our investigation has been specially focussed on the question as to what extent our subjects can make correct decisions concerning simple cases. In some cases the existence of the phenomenon of representativity could not be eliminated. It was remarkable that we were not able to find significant differences between the financial analysts and the students.

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